

The Board of directors submit herewith the Group's Interim Report and Condensed Financial Statements for the six months ended 30 June 2001. The consolidated results and consolidated cash flow statement for the six months ended 30 June 2001 and the consolidated balance sheet as at 30 June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 13 to 22 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Due to the sale of major properties of the Group, which included Kimberley Plaza in the corresponding period in 2000, the results for the current period have not been able to outperform the last year's of the same period. Nevertheless, the Group's debt equity ratio will greatly improve from 242% to 180% after the completion of the sale of vacant site at Sharp Street East and the office portion of 8 Russell Street in August and October 2001 respectively. The sale will reduce the Group's bank borrowings substantially and further improve the financial strength of the Group.

In the property sector, the completion of the Soundwill Plaza extension at 38 Russell Street and 8 Russell Street projects add more than 50,000 square feet of office space (except the office portion of 8 Russell Street) and 26,000 square feet retail space for the Group. This addition will further consolidate and reinforce the Group's business in property development.

With the gradual recovery of Hong Kong's economy and reductions of interest rates, the rental renewal rate for the retail space of Soundwill Plaza, the Group's core property located in the heart of Causeway Bay, has maintained or even exceeded the level achieved in 1997. Moreover, all retail spaces have been taken up immediately after the launch of No.8 Russell Street early this year. It is expected that these premium grade properties will continue to bring in a sizable and stable rental income for the Group.

In the technology sector, new trials of Optilink Technologies' dense wavelength division multiplexing (DWDM) systems with various telecom service providers in China and Hong Kong have been in progress or completed with favourable results. Simultaneously, the company has been in active negotiations with several international telecom equipment suppliers with the aim to diversify its product base.

The Group anticipates a marked improvement in the results in the second half of this year. Rental income is expected to increase after the completion of Soundwill Plaza extension and 8 Russell Street. The Group will also continue its strategy to reduce its bank borrowings and interest expenses.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2001 (2000: Nil).

CAPITAL STRUCTURE

	Six months ended 30 June 2001 (Unaudited) HK\$'000	Year ended 31 December 2000 (Audited) HK\$'000
Shareholder's fund	916,530	970,260
Total debts	2,219,027	2,109,389
Total borrowing costs	100,451	197,098
Gearing ratio (included all borrowings)	242%	217%
Average cost of borrowing	9.05%	10.2%

Total debts and gearing ratio increased as a result of further building loans of HK\$71,000,000 drawn during the six months ended 30 June 2001.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash inflow from operating activities for the six months ended 30 June 2001 is approximately HK\$21,457,000 (year ended 31 December 2000: approximately HK\$171,382,000). The decrease is mainly because of disposal of properties including Kimberley Plaza in 2000.

With the development of 38 Russell Street extension and 8 Russell Street building to the final stage, the net cash outflow for investing activities for addition of properties under development decrease in current period, approximately HK\$42,333,000 (2000: approximately HK\$66,512,000).

SIGNIFICANT INVESTMENTS HELD

Save as the disposal of the vacant site at Sharp Street East (completed in August 2001) and the office portion of 8 Russell Street (to be completed in October 2001), there is no material change in the significant investments held by the Group during the six months ended 30 June 2001.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There is no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2001.

EMPLOYEES

There is no material changes regarding the employees of the Group since the publication of the Company's 2000 Annual Report.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2001, properties of the Group with an aggregate net book value of approximately HK\$2,816,743,000 (2000: approximately HK\$2,741,460,000) were charged to bank creditors to secure banking facilities for the Group.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2001 the interests of the Directors and chief executive in the shares of the Company or any associated corporation as recorded in the register to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) were as follows:

Director	Number of shares held under corporate interest
-----------------	---

Foo Kam Chu, Grace (“Mrs Chan”)	1,739,586,000
---------------------------------	---------------

- (a) Mrs Chan’s corporate interest (within the meaning of Practice Note (the “Practice Note”) No. 5 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), arises by virtue of her shareholding in Ko Bee Limited referred to in paragraph (b) below.
- (b) Mrs Chan has a personal interest (within the meaning of the Practice Note) in respect of one share of US\$1, representing the entire issued share capital of Ko Bee Limited, a company incorporated in the British Virgin Islands, which holds and is beneficially interested in 1,739,586,000 shares.

Save as disclosed herein, none of the Directors nor any chief executive of the Company has any interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHT TO ACQUIRE SHARES

At as 30 June 2001, there were 24,600,000 outstanding options granted to several directors of the Company. Details of the said outstanding options are as follows:

Name of director	Date of grant	Number granted	Exercise price	Period within which options can be exercised
Foo Kam Chu, Grace	7 February 1998	3,000,000	HK\$0.66	1 January 1999 to 31 December 2002
	8 February 2000	3,500,000	HK\$0.164	8 August 2000 to 31 December 2004
	2 January 2001	3,800,000	HK\$0.10	2 July 2001 to 24 February 2007
Leung Yeuk Kuk, Joseph	7 February 1998	1,000,000	HK\$0.66	1 January 1999 to 31 December 2002
	8 February 2000	2,000,000	HK\$0.164	8 August 2000 to 31 December 2004
	2 January 2001	2,500,000	HK\$0.10	2 July 2001 to 24 February 2007
Liu Guoyuan	2 January 2001	3,800,000	HK\$0.10	2 July 2001 to 24 February 2007
Kwong Che Keung, Gordon	2 January 2001	2,000,000	HK\$0.10	2 July 2001 to 24 February 2007
Chan Wai Ling	2 January 2001	3,000,000	HK\$0.10	2 July 2001 to 24 February 2007

Save as disclosed above, as at 30 June 2001, there is no right to subscribe for equity or debt securities of the Company granted to any director or chief executive of the Company or to the spouse or children under 18 years of age of any such director or chief executive as recorded in the register required to be kept under section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the following persons are interested in 10% or more of the issued share capital of the Company as recorded in the register required to be kept under section 16(1) of the SDI Ordinance.

Shareholder	Number of Shares
Foo Kam Chu, Grace (<i>note i</i>)	1,739,586,000
China Ocean Shipping (Group) Company (<i>note ii</i>)	330,736,000

Notes:

- (i) 1,739,586,000 shares of the Company were held by Ko Bee Limited the shares of which was beneficially wholly owned by Madam Foo Kam Chu, Grace.
- (ii) 185,296,000 shares and 145,440,000 shares of the Company were held by COSCO Investments Limited and Graceful Nice Limited respectively, both of which were indirect subsidiaries of China Ocean Shipping (Group) Company.

CONTINGENT LIABILITIES

There is no material changes since the publication of the Company's 2000 Annual Report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2001, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2001.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Group is not, or was not for any part of the six months ended 30 June 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

Pursuant to paragraph 3.7.1 of the Practice Note 19 of the Listing Rules, the conditions imposing specific performance obligations on any controlling shareholder in relation to bank facilities granted to the Group are set out below.

Pursuant to the Debt Restructure Agreement dated 8 May 2000, completion of which is subject to, inter alia, the execution of a subordination agreement in which the other loan in the sum of approximately HK\$227,900,000 as at 30 June 2001 payable to Mrs. Chan will be subordinated to bank borrowings and Mrs. Chan should maintain her shareholding in the Company not less than 45% of the issued share capital of the Company during the standstill period ending on 31 January 2002.

Pursuant to a Loan Agreement dated 20 October 2000, it is a condition, inter alia, to the availability of banking facility granted to a wholly owned subsidiary (“the subsidiary”) of the Company that Mrs. Chan, inter alia, shall enter into a subordination agreement in which all sums for which the subsidiary was then indebted (if any) and may thereafter become indebted to Mrs. Chan will be subordinated to bank borrowings.

APPRECIATION

As a final note, I wish to take this opportunity to thank all the directors and staff for their contributions and good performance during the period.

By order of the Board
FOO Kam Chu, Grace
Chairman

Hong Kong, 5 September 2001